

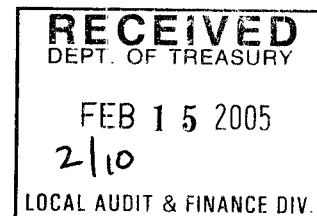


**CITY OF DETROIT
TAX INCREMENT FINANCE AUTHORITY**

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)





KPMG LLP
Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

The Board of Directors of
Tax Increment Finance Authority:

We have audited the accompanying financial statements of the governmental activities and General Fund of the City of Detroit Tax Increment Finance Authority (the Authority), a component unit of the City of Detroit, Michigan (the City), as of and for the years ended June 30, 2004 and 2003, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of the City of Detroit Tax Increment Finance Authority as of June 30, 2004 and 2003, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Authority has not presented Management's Discussion and Analysis and budgetary comparison information that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

KPMG LLP

December 21, 2004

CITY OF DETROIT
TAX INCREMENT FINANCE AUTHORITY
Statement of Net Assets and General Fund Balance Sheet
June 30, 2004

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
Assets	\$ —	—	—
Liabilities	—	—	—
Fund balance/net assets	\$ —	—	—

See accompanying notes to financial statements.

CITY OF DETROIT
TAX INCREMENT FINANCE AUTHORITY
Statement of Net Assets and General Fund Balance Sheet
June 30, 2003

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
Assets	\$ —	—	—
Liabilities	—	—	—
Fund balance/net assets	\$ —	—	—

See accompanying notes to financial statements.

**CITY OF DETROIT
TAX INCREMENT FINANCE AUTHORITY**

Statement of Activities and General Fund Revenues, Expenditures,
and Changes in Fund Balance

Year ended June 30, 2004

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
Expenditures/expenses:			
Payment to other governments (note 3)	\$ 533,340	—	533,340
Payment to primary government for project costs (note 4)	11,083,342	—	11,083,342
Administrative charges	20,000	—	20,000
Total expenditures/expenses	11,636,682	—	11,636,682
Program revenues	—	—	—
Net program expenses	11,636,682	—	11,636,682
General revenues:			
Property taxes (note 3)	11,636,682	—	11,636,682
Excess of revenues over expenditures/expenses	—	—	—
Change in net assets	—	—	—
Fund balance/net assets, beginning of year	—	—	—
Fund balance/net assets, end of year	\$ —	—	—

See accompanying notes to financial statements.

**CITY OF DETROIT
TAX INCREMENT FINANCE AUTHORITY**

Statement of Activities and General Fund Revenues, Expenditures,
and Changes in Fund Balance

Year ended June 30, 2003

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
Expenditures/expenses:			
Payment to other governments (note 3)	\$ 1,267,068	—	1,267,068
Payment to primary government for project costs (note 4)	12,994,808	—	12,994,808
Administrative charges	20,000	—	20,000
Total expenditures/expenses	14,281,876	—	14,281,876
Program revenues	—	—	—
Net program expenses	14,281,876	—	14,281,876
General revenues:			
Property taxes (note 3)	14,281,876	—	14,281,876
Excess of revenues over expenditures/expenses	—	—	—
Change in net assets	—	—	—
Fund balance/net assets, beginning of year	—	—	—
Fund balance/net assets, end of year	\$ —	—	—

See accompanying notes to financial statements.

**CITY OF DETROIT
TAX INCREMENT FINANCE AUTHORITY**

Notes to Financial Statements

June 30, 2004 and 2003

(1) Purpose

The City of Detroit Tax Increment Finance Authority (the Authority) is a separate legal entity and a discretely presented component unit of the City of Detroit (the City) established under Act No. 450 of the Public Acts of Michigan of 1980 as amended. Its purpose is to acquire property and private financing for industrial development projects through the issuance of long-term securities secured by a tax increment financing plan and the full faith and credit of the City.

The Authority was established in connection with the Central Industrial Park Project (CIPP) and was undertaken jointly by the City and the City of Hamtramck for the purpose of assembling land for an industrial park.

(2) Summary of Significant Accounting Policies

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the Authority has no component units. However, the Authority is a component unit of the City of Detroit, Michigan.

(b) Basis of Presentation

The financial activities of the Authority consist only of governmental activities. For its reporting purposes, the Authority has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of the General Fund financial data to government-wide data in a separate column. A brief description of the Authority's government-wide and fund financial statements is as follows:

Government-wide Financial Statements

The government-wide statement of net assets and statement of activities report the overall financial activity of the Authority. The financial activities of the Authority consist only of governmental activities, which are primarily supported by property taxes.

**CITY OF DETROIT
TAX INCREMENT FINANCE AUTHORITY**

Notes to Financial Statements

June 30, 2004 and 2003

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e., economic development) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The Authority has no program revenues. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Department's only fund, the General Fund. The General Fund is the Authority's primary operating fund and accounts for all financial resources of the Authority.

(c) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, consist primarily of property taxes. On an accrual basis, revenues from property taxes are recognized in the fiscal year in which the taxes are intended to finance.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

(d) Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**CITY OF DETROIT
TAX INCREMENT FINANCE AUTHORITY**

Notes to Financial Statements

June 30, 2004 and 2003

(3) Property Tax Revenues

The City's property tax is levied each July 1 of the fiscal year and is payable without penalty either on or before August 31 in full or one-half on or before August 15, with the balance then being payable on or before the following January 15. Property taxes attach as a lien on the property as of July 1 of the year of levy. The City records property tax revenue when available. Available is defined as due and receivable within the current fiscal year and collected within the current fiscal year or expected to be collected within 60 days thereafter.

Property tax revenues consist of the incremental portion of the City of Detroit and Wayne County property taxes for each year in excess of a base-year amount. The base-year property taxes (based on assessed values at December 31, 1980) represent revenues generated by the CIPP and situated in the City before project development. The City and Wayne County levy and collect the revenue allocated to the Authority.

Under terms of the Inter-local Agreement (the Agreement) between the City and the City of Hamtramck (Hamtramck) relating to the CIPP dated May 1, 1981, each city was required to establish a tax increment finance plan in order to share in the incremental property revenue of the CIPP development. The plan was based on the first \$3,400,000 of revenue being divided equally between the City and Hamtramck, with the balance allocated to each city in the proportion that the CIPP project cost paid or incurred by each city bore to the project cost paid or incurred by both cities. Hamtramck received \$533,340 and \$1,267,068 in property tax revenue during the years ended June 30, 2004 and 2003, respectively, related to the Agreement.

(4) Commitments

The Agreement states that the Authority shall reimburse the City for project costs incurred by the City related to the CIPP. The City issued bonds on behalf of the Authority, and these bonds are recorded in the financial statements of the City and are part of the reimbursed cost. Total unreimbursed expenditures incurred by the City as of June 30, 2004 and 2003, respectively, approximate \$11,792,673 and \$23,427,000.